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Report Highlights:

Argentine dairy production for 2002 is forecast to drop for the third consecutive year. The economic difficulties, especially the three-year long recession, and restrictions on exports to Brazil have forced processors to lower farmgate milk prices to a level where many producers are losing money. Most dairymen have gone back to more pasture-based feeding, resulting in lower cow yields and production more susceptible to weather factors. Despite lower output, exports are forecast to be slightly higher as processors are expected to get rid of stocks carried over from 2001. Imports are forecast to drop slightly as a result of weak demand and economic uncertainty. Despite this negative short term forecast, the Argentine dairy sector is expected to become, in the middle term, a main supplier of dairy products to Latin America as it is a low cost milk producer and has good quality.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

Production

Argentine milk production in 2002 is projected to fall to 9.2 million metric tons (MMT), back to roughly 1997's level. A weak domestic market plus significantly lower purchases from Brazil have put downward pressure on farmgate milk prices and thus affected total output. This process began two years ago and is expected to continue in 2002.

Argentina's dairy industry grew continuously from 1991 through 1999, mainly due to the country's strong economic growth and large exports to neighboring Brazil. This period was accompanied by vast foreign and local investment which almost doubled the production capacity during that period. However, as of mid 1998-early 1999, after the Asian, Russian and Brazilian crises, the country began to wander through economic difficulties and is still immersed in a devastating economic recession. Most economists predict marginal or no growth for 2002, especially under current international circumstances. This situation will not be of much help to overcome serious problems of increasing unemployment, closing of companies and depressed world markets. Weak domestic demand, which has rapidly shifted from top leading brands to inexpensive second and third brands, has put pressure on dairy processors which were forced to lower milk farmgate prices. Moreover, Brazil, which was the number one market for Argentine dairy products, taking normally 70 percent of exports, has increased its own production and is also suffering a strong recession. Exports in 2001 to Brazil are estimated to represent only 40 percent of the total. The consequence is lower milk prices, which in many cases are below production costs, and a drop in milk output. Producers shifted from more intensive production schemes to more forage-pasture based nutrition, which is of lower cost but results in lower yields per cow. This type of production is also more dependent on weather conditions and accentuates seasonality, with much less production in autumn and abundant production during spring. We expect good prices during March-July 2002, with processors fighting for every liter of milk in the market and low prices (\$0.13-0.15 per liter) during spring (Aug-Nov.).

With very tight returns, many of the total 15,000 estimated dairymen are in deep economic trouble, worsened by the credit restriction imposed by the Banco de la Provincia de Buenos Aires. Many inefficient producers and those who are suffering floods in the province of Buenos Aires will probably quit production, accelerating the process of concentration. Also dairies which are in good crop land, especially in northern Buenos Aires and southern Santa Fe, will find it difficult to continue in this business as crops, especially oilseeds, are far more profitable and with fewer headaches. It is estimated that the number of cows has not changed as neighbors absorb the cattle which are sold by the producer closing down. Because of the economic and weather difficulties the level of reserves made for 2002 is estimated to be significantly lower, which will impact negatively on next years milk production.

Local dairy processors continue to struggle in a difficult domestic and international environment. In the local side, the three-year long recession is hurting their profitability as wholesale prices continue to drop and to maintain market share they have had to launch cheaper brands to maintain their volumes. Large retailers, which account for roughly 70 percent of food sales, continue to use their power to purchase low and sell with good margins. Supermarkets continue to extend their payments to over 60 days in many cases. On the international side, although dairy exports in the past few years have accounted for roughly 15-20 percent of the country's total output, it is very important to ship at the highest price possible. Brazil has been an excellent market until it began in early 1999 to devalue its currency. Exports to Brazil have dropped. Farmgate milk prices in dollar terms in the neighboring country are less than half the price in Argentina, making exports really difficult and forcing exports to go out to a world market which is extremely competitive with many barriers and supports. Exports to other markets are growing, but still do not offset Brazil's drop, thus increasing stocks. A recent study published by the local press indicated that the 12 largest processors together, accounting for approximately 65 percent of the total milk, lost roughly \$55 million in the last 12 months. Two of those companies accounted for practically all of the losses. In mid-2001, the government, after helping other sectors in search of some economic reactivation, launched a "competitiveness plan" for the dairy sector. This is primarily a program which reduces the industry's tax burden by about \$50 million.

Argentina has nearly 1,000 dairy plants, of which the majority are small and medium cheese processors located in the provinces of Santa Fe and Cordoba. Cheese production uses about 45 percent of the country's total milk output. Farmgate milk prices and production costs in this region are somewhat lower than the area near-by Buenos Aires city, which focuses mainly in supplying its huge demand for fresh products. The two largest cooperatives, Sancor and Milkaut, have recently integrated their operations to become more efficient to face a globalized market. Together they will dominate 30 percent of the country's production, followed by Mastellone with roughly 20 percent. Although it is difficult to measure the country's processing capacity because of the huge atomization, most sources believe that the industry in 2001 is running at 75-80 percent capacity. Investment in dryers was big until 2-3 years ago due to a constantly growing milk production.

Consumption

Domestic consumption of dairy products in 2002 is projected to continue the downward trend initiated in 2000. Argentina is experiencing serious economic difficulties with a shrinking economy and increasing unemployment. Until mid 2001, the impact of this situation on the demand of dairy products was offset by processors and retailers offering cheaper brands, like private label and b-brands. However, in late 2001 the recession worsened and not only prices but volumes were affected. There are no clear signs that this situation will change in 2002, especially under the world's difficult situation.

Argentine per capita consumption of dairy products expressed in liters of milk is close to 215-220 liters. The following table describes Argentina's dairy consumption by product in 2001:

Product	Volume	Product	Volume
Fluid Milk*	1,550,000,000 Lt	Cheese, Hard	55,000 MT
Cream	30,000,000 Lt	Cheese, Semi Soft	125,000 MT
Condensed Milk	11,000 MT	Cheese, Soft	240,000 MT
DWMP	94,000 MT	Dulce de Leche	100,000 MT
DNFP	20,000 MT	Desserts	22,000 MT
Butter	42,000 MT	Yoghurt	240,000 MT

* it does not take into account 700,000,000 Lt of raw milk

Of the industrialized fluid milk, 80 percent is whole, 18 percent partially-skimmed, 1 percent skimmed and 1 percent with chocolate. Roughly 45 percent of the fluid milk is UHT, while the rest is refrigerated (mostly in 1 liter plastic bags). Fluid milk in Argentina retails between \$0.39 and \$1.0 per liter.

Trade

Argentine exports of dairy products for 2002 are projected to increase from 2001's low level because processors will export stocks built up in spring of 2001. Nonetheless, exports will be lower than the level of 1998-2000 because of reduced milk output and to the fact that Brazil is purchasing less every year.

Brazil in past years was the major market for Argentine dairy products, taking between 70-80 percent of total exports. In fact, most processors considered it as an extension of the domestic market due to the large volumes bought at relatively good prices. However, after the strong devaluations initiated in early 1999, the market began to get complicated. In 2000 Brazilian dairy producers filed a case charging several countries, including Argentina and Uruguay, of exporting at dumping prices. In February 2001 the private sectors of the two countries reached an agreement in which the minimum price of exports of dry milk would be USDA's reference price, and it could never be less than \$1,900 per MT. This agreement expires in 2004 and acts as a strong barrier to imports, especially with the continuous devaluations of the Real. Dairy exports to Brazil during January/August 2001 compared to the same period last year were 56 percent lower in volume. Exports in 2002 are forecast to be even lower as Brazil's production increases and they begin to have some export surpluses.

Argentina currently has several markets closed because of the foot and mouth disease situation. However, those markets, like Colombia, are expected to open any time now. Mexico reopened in late October. Argentine exporters claim that with heat treatment there is no risk of exporting the disease. The combination of growing production because of seasonality (spring) a weaker domestic demand and most export markets closed is resulting in higher stocks of dry milk and some cheese. Processors are hoping that markets open rapidly as well as the possibility of winning a large bid in Algeria for dry milk in order to reduce stocks (shipments would begin in January 2002).

Mexico has become a very good market for Argentine dairy products. From January to August 2001 it imported

10,300 MT, 70 percent more than the same period last year. The main products shipped were whole dry milk, followed by nonfat dry milk, cheese and butterfat. Other markets which have grown are Chile, Algeria, Venezuela and Colombia.

The following table shows Argentine exports by dairy product during the period January/August 2001, in MT:

Product	2001	2000	Dif. 01/00 %	Share of Exports %
WDM	52,964	70,819	-25	52
NFD	11,779	15,030	-22	11
Whey	9,960	10,183	-2	10
Cheese	8,522	14,842	-43	8
UHT milk	6,478	20,564	-68	6
Butter	1,726	4,162	-59	2
Other	11,167	8,042	39	11
Total	102,596	143,642	-29	100

The value of exports in the same period totaled \$186 million, 15 percent lower than the same period last year.

The following table shows dairy exports by country, during the period January/August 2001, in MT:

Country	MT
USA	3,346
Brazil	48,847
Mexico	10,332
Chile	7,475
Algeria	5,319
Paraguay	4,481
Venezuela	3,539
Colombia	3,442
Philippines	2,016
South Africa	1,291

Other	12,508
Total	102,596

Imports of dairy products in 2002 are forecast to remain at a similar level as in 2001. The economic recession, market uncertainty and large stocks will discourage larger imports. Based on information obtained from customs database, dairy imports through August 2001 totaled \$21.3 million, 12 percent higher than the same period in 2000. The following table shows imports by dairy product during the period January/August 2001, in million dollars:

Product	2001	2000	Dif. 01/00	Share of Imports %
Cheese	13.5	15.3	-12	64
Whey	2.2	2.1	5	10
Milk	1.8	0.5	260	8
Butter	1.4	0.1	1300	7
Yog/Butterfat	1.3	0.6	116	6
Dry Milk	1.1	0.5	120	5
Total	21.3	19.1	12	100

The main origins of imports through August 2001 were as follow:

Product	Value \$ million	Origin \$ million
Cheese	13.5	6.5 Uruguay 3.2 Brazil 1.3 Denmark 0.6 France 0.5 USA 0.3 Spain
Whey	2.2	1.2 USA 0.5 Uruguay 0.3 Belgium
Milk	1.8	1.7 Uruguay
Butter	1.4	1.2 Uruguay 0.2 Brazil

Yog/Butterfat	1.3	1.2 Brazil 0.1 N.Zealand
Dry Milk	1.1	0.9 Uruguay 0.1 Chile

Of the total imports of dairy products through August 2001, 43 percent were imported by large local processors, 15 percent by Conaprole, the Uruguayan dairy company which is now marketing in Argentina, 7 percent by Arla Foods from Denmark and 6 percent by local supermarkets. The balance was imported by smaller importers, food ingredient companies and food processors.

Cheese by far is the product most imported. Argentines are one of the world's top consumers of cheese. Most of it comes from Uruguay through Conaprole and Bongrain which have a very good distribution network in Argentina. Specialty cheeses are imported mainly from Europe and the United States. Cheese imports by type in the first 8 months of 2001 were as follow, in dollars:

HTS Code	Description	Value \$
040610	Fresh cheese	1,024,817
040620	Grated or powdered cheese	361,868
040630	Processed cheese	3,274,913
040640	Blue-veined cheese	852,975
040690	Other cheese (primarily semi-soft)	8,040,677
Total		13,555,250

Export rebates under the "factor of convergence" regime (see report ar1040 dated 6/20/2001 for information on the new regime) are now applicable on exports to Mercosur members. This measure was taken to offset part of the large devaluations in Brazil. The following table shows current import duties and export rebates for most dairy products:

HTS Code	Description	Imp. Duty %	Rebate %
040120	Milk, UHT	28	6.80
040221	Dry milk, nonfat	28	6.80
040310	Yogurt	28	9.00
040410	Whey	16.50	8.10

040510	Butter	28	9.00
040610	Cheese	28	9.00

Stocks

Ending stocks in 2002 are forecast to drop somewhat as production is expected to fall and to the fact that processors will have to reduce the high level of carry in from 2001. Stocks in 2001 will be higher especially in dry milk, which is the first product to absorb excess milk, and cheese. This is a result of large spring milk production, a weak domestic consumption, restricted exports to Brazil and the closing of some important and growing markets such as Colombia and Mexico (which has recently reopened). Processors have three variables to affecting how they act in this situation: some product will be exported at "whatever price" because processors need liquidity, and holding stock is financially very expensive, especially with future prices not very encouraging; little will be sold into the domestic markets as there is not much room left without affecting significantly overall prices; and some product will remain as stocks for next year.

SECTION II. STATISTICAL TABLES

PSD Table						
Country	Argentina					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)	(1000 MT)
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Cows In Milk	2450	2450	2450	2450	0	2450
Cows Milk Production	9800	9800	9500	9600	0	9200
Other Milk Production	0	0	0	0	0	0
TOTAL Production	9800	9800	9500	9600	0	9200
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	1	0	0	0	0
TOTAL Imports	0	1	0	0	0	0
TOTAL SUPPLY	9800	9801	9500	9600	0	9200
Intra EC Exports	0	0	0	0	0	0
Other Exports	36	25	34	8	0	5
TOTAL Exports	36	25	34	8	0	5
Fluid Use Dom. Consum.	2250	2300	2250	2250	0	2200
Factory Use Consum.	7514	7476	7216	7342	0	6995
Feed Use Dom. Consum.	0	0	0	0	0	0

TOTAL Dom. Consumption	9764	9776	9466	9592	0	9195
TOTAL DISTRIBUTION	9800	9801	9500	9600	0	9200
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Export Trade Matrix			
Country	Argentina		
Commodity	Dairy, Milk, Fluid		
Time period	CY	Units:	MT
Exports for:	2000		2001
U.S.	0	U.S.	
Others		Others	
Brazil	22820		
Peru	716		
Chile	636		
Paraguay	307		
Uruguay	224		
Bolivia	62		
Total for Others	24765		0
Others not Listed			
Grand Total	24765		0

Import Trade Matrix			
Country	Argentina		
Commodity	Dairy, Milk, Fluid		
Time period	Year	Units:	MT
Imports for:	2000		2001
U.S.	269	U.S.	
Others		Others	
Uruguay	657		
Chile	55		
Total for Others	712		0
Others not Listed	2		
Grand Total	983		0

Prices Table			
Country	Argentina		
Commodity	Dairy, Milk, Fluid		
Prices in	Pesos	per uom	Liter **
Year	2000	2001	% Change
Jan	0.15	0.17	13.33%
Feb	0.15	0.17	13.33%
Mar	0.16	0.17	6.25%
Apr	0.16	0.18	12.50%
May	0.18	0.18	0.00%
Jun	0.2	0.18	-10.00%
Jul	0.2	0.18	-10.00%
Aug	0.18	0.18	0.00%
Sep	0.18	0.18	0.00%
Oct	0.18	0.17	-5.56%
Nov	0.17		-100.00%
Dec	0.16		-100.00%
Exchange Rate	1/1	Local currency/US \$	

** farmgate price

PSD Table						
Country	Argentina					
Commodity	Dairy, Cheese				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	31	31	25	26	21	30
Production	432	445	420	435	0	420
Intra EC Imports	0	0	0	0	0	0
Other Imports	2	8	4	7	0	6
TOTAL Imports	2	8	4	7	0	6
TOTAL SUPPLY	465	484	449	468	21	456
Intra EC Exports	0	0	0	0	0	0
Other Exports	24	22	18	12	0	15
TOTAL Exports	24	22	18	12	0	15
Human Dom. Consumption	416	436	410	426	0	415
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	416	436	410	426	0	415
TOTAL Use	440	458	428	438	0	430
Ending Stocks	25	26	21	30	0	26
TOTAL DISTRIBUTION	465	484	449	468	0	456
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Export Trade Matrix			
Country	Argentina		
Commodity	Dairy, Cheese		
Time period	CY	Units:	MT
Exports for:	2000		2001
U.S.	5257	U.S.	
Others		Others	
Brazil	8573		
Mexico	3271		
Paraguay	2114		
Chile	674		
Peru	537		
Bolivia	285		
Malta	120		
Japan	92		
Uruguay	74		
Venezuela	22		
Total for Others	15762		0
Others not Listed	36		
Grand Total	21055		0

Import Trade Matrix			
Country	Argentina		
Commodity	Dairy, Cheese		
Time period	Year	Units:	MT
Imports for:	2000		2001
U.S.	598	U.S.	
Others		Others	
Uruguay	4012		
Brazil	1649		
Denmark	590		
Netherlands	352		
France	259		
Germany	233		
Spain	120		
Total for Others	7215		0
Others not Listed	206		
Grand Total	8019		0

Prices Table			
Country	Argentina		
Commodity	Dairy, Cheese		
Prices in	Pesos	per uom	Kilo**
Year	2000	2001	% Change
Jan	3.98	3.85	-3.27%
Feb	4.06	3.94	-2.96%
Mar	4.44	4.11	-7.43%
Apr	4.68	4.4	-5.98%
May	4.76	4.53	-4.83%
Jun	4.83	4.63	-4.14%
Jul	4.86	4.52	-7.00%
Aug	4.79	4.34	-9.39%
Sep	4.78	4.17	-12.76%
Oct	4.67		-100.00%
Nov	4.07		-100.00%
Dec	3.93		-100.00%
Exchange Rate	1/1	Local currency/US \$	

** retail price (incl. 21% VAT), soft cheese

PSD Table						
Country	Argentina					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	20	20	15	27	12	38
Production	204	202	197	195	0	185
Intra EC Imports	0	0	0	0	0	0
Other Imports	1	1	0	0	0	0
TOTAL Imports	1	1	0	0	0	0
TOTAL SUPPLY	225	223	212	222	12	223
Intra EC Exports	0	0	0	0	0	0
Other Exports	118	104	106	90	0	95
TOTAL Exports	118	104	106	90	0	95
Human Dom. Consumption	92	92	94	94	0	94
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	92	92	94	94	0	94
TOTAL Use	210	196	200	184	0	189
Ending Stocks	15	27	12	38	0	34

TOTAL DISTRIBUTION	225	223	212	222	0	223
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Export Trade Matrix			
Country	Argentina		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	CY	Units:	MT
Exports for:	2000		2001
U.S.	11	U.S.	
Others		Others	
Brazil	80838		
Chile	5863		
Mexico	3650		
Paraguay	2783		
Senegal	1275		
Colombia	1236		
Algeria	1000		
Egypt	668		

Cuba	600		
Bolivia	592		
Total for Others	98505		0
Others not Listed	2953		
Grand Total	101469		0

PSD Table						
Country	Argentina					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	8	8	6	8	6	14
Production	47	45	38	44	0	40
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	55	53	44	52	6	54
Intra EC Exports	0	0	0	0	0	0
Other Exports	27	25	18	18	0	20

TOTAL Exports	27	25	18	18	0	20
Human Dom. Consumption	22	20	20	20	0	20
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	22	20	20	20	0	20
TOTAL Use	49	45	38	38	0	40
Ending Stocks	6	8	6	14	0	14
TOTAL DISTRIBUTION	55	53	44	52	0	54
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Export Trade Matrix			
Country	Argentina		
Commodity	Dairy, Milk, Nonfat Dry		
Time period	CY	Units:	MT
Exports for:	2000		2001
U.S.	57	U.S.	
Others		Others	
Brazil	15960		
Chile	4191		
Mexico	2951		

Japan	661		
Paraguay	338		
Algeria	200		
Peru	135		
Venezuela	113		
Philippines	100		
Uruguay	27		
Total for Others	24676		0
Others not Listed	26		
Grand Total	24759		0